

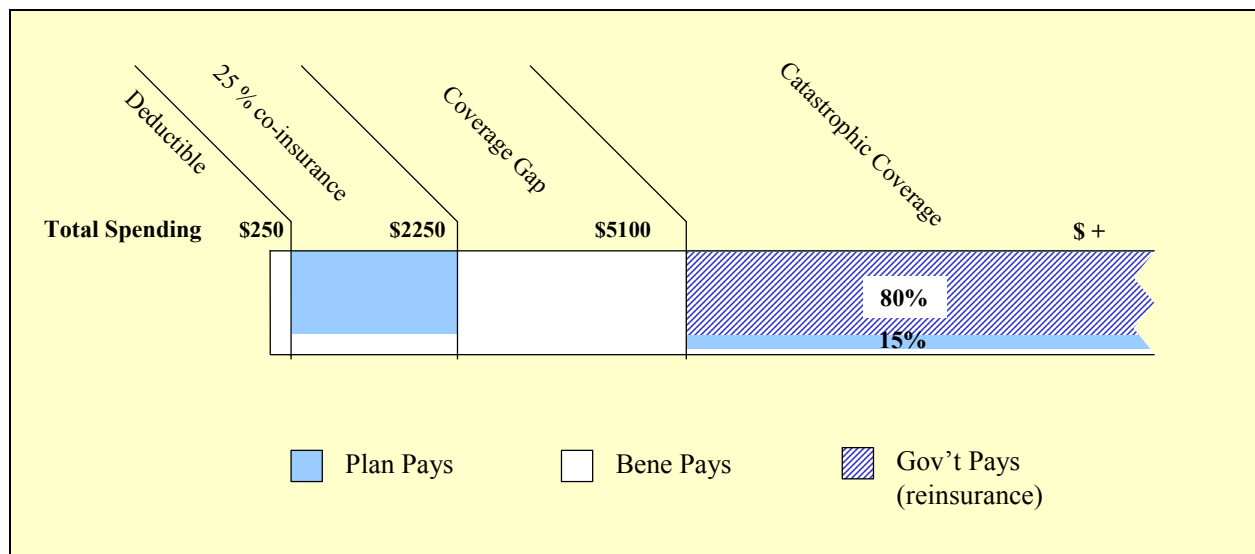
*Medicare Prescription Drug, Improvement, and Modernization Act of 2003*  
**THE NEW MEDICARE PRESCRIPTION DRUG BENEFIT:**  
**GOVERNMENT SUBSIDIES / PAYMENTS TO PLANS**  
Section 1860D-15

Direct Subsidy

The proposed beneficiary premium for the new Medicare drug benefit is designed so that a non-low income beneficiary pays 25.5 percent of the cost of the drug premium on average. The remaining 74.5 percent will be subsidized by the federal government in two ways. An estimated 54.5 percent will come in the form of a direct subsidy to the plan sponsor. The estimated remaining 20 percent will come in the form of federal reinsurance of plans' catastrophic coverage costs.

Reinsurance

The reinsurance mechanism is described in the chart below:



Under Medicare prescription drug reinsurance, the government pays 80% of the cost of drugs in the catastrophic coverage range. This way, the plan is protected if more beneficiaries than expected have very high drug costs.

Payments to plans will also be risk adjusted, which means that the plan will be paid more if it enrolls a beneficiary who is expected to have high drug costs and less if the beneficiary is expected to have low drug costs. This risk adjustment mechanism will help to ensure that the plans are paid appropriately.